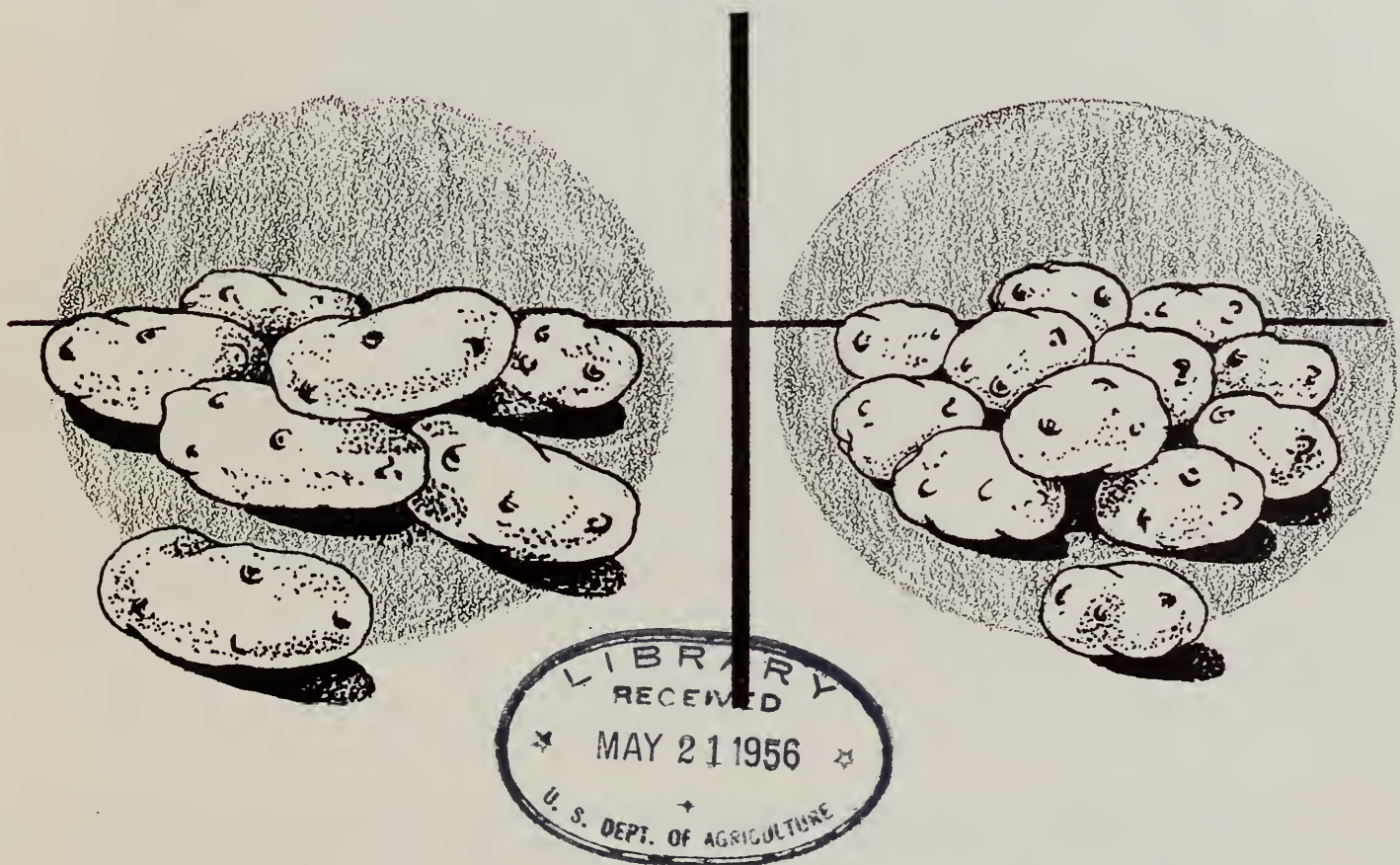


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POTATO Marketing Agreements Under Federal Legislation



U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Fruit and Vegetable Division

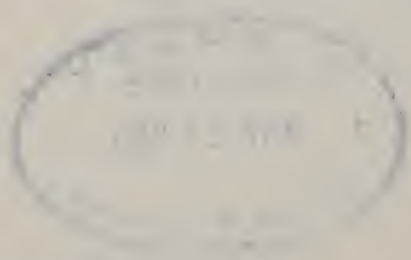
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Administration of Justice

Under Secretary

Department



THE SECRETARY OF JUSTICE
DEPARTMENT OF JUSTICE
WASHINGTON, D.C. 20540

POTATO MARKETING AGREEMENTS UNDER FEDERAL LEGISLATION

History of Potato Marketing Agreement Programs

The blessings of abundant production are often mixed. Farmers do not want a price-depressing extra supply; consumers do not need it. Because farmers cannot hold such a perishable crop as potatoes until the next season, there may be no profitable outlet for the excess production.

These paradoxes are not new to American growers. As early as colonial times, farmers with bulging barns and empty pockets attempted to find a way to hold production in line with what the market would take at particular price levels. For example, the Virginia assembly between 1623-79 set up various quality standards for farm crops, prescribed weights and measures, set exchange rates, established import controls, and even authorized a plan for disposing of excess supplies of tobacco. From then until now, burdensome supplies have recurred in various crops, so that farmers and legislators have wrestled with the problem from time to time.

Expanded production brought on by World War I left a wake of excess production that caught the attention not only of farmers but also of many others interested in the farmers' welfare. Voluntary plans for coping with large supplies offered a testing ground for various marketing ideas. The basic principles of voluntary marketing agreements proved to be sound, if all farmers and handlers would follow a common pattern. However, many of these plans failed, or were of limited use only, because a small minority proved to be the marginal group that tipped the scales away from attainment of industry objectives.

Federal legislation authorizing the use of agreements and licenses for regulating the handling of fruits, vegetables, and milk was enacted in 1933. This legislation was reenacted in 1937 under the title, "Agricultural Marketing Agreement Act of 1937." Three basic types of regulation have been used for fruits and vegetables: (1) Grade, size, quality and maturity, (2) volume proration, and (3) surplus pools. Only the first of these three types, however, has been used for potatoes.

During the 1937 crop year three agreement programs for the marketing of potatoes operated in the following areas: (1) North Central States (Michigan, Wisconsin, Minnesota, and North Dakota), (2) Colorado, Wyoming, and Nebraska, and (3) Idaho-Malheur County, Oregon. They automatically expired at the end of the 1937 marketing season.

During 1938 referendums were conducted among potato growers in two large marketing areas concerning the issuance of marketing agreement programs. These covered (1) all the important early commercial States, and (2) the 15 important late-producing States. The proposed program for the early States met the minimum requirements under the law, but several important commercial areas did not favor it, and the late States did not favor the program by the required majority. Therefore, neither program became effective.

During 1940 and 1941 marketing agreement programs were considered in (1) Maine, (2) the North Central States (Michigan, Wisconsin, Minnesota, and North Dakota), (3) Nebraska-Wyoming, (4) Colorado, (5) Idaho, (6) Washington, and (7) Oregon-northern California. They were accepted in four areas - the North Central States, Colorado, Idaho, and Oregon-northern California. By the time these programs were adopted, World War II was under way and due to the manpower shortage, price ceilings, and price support, no marketing regulations were operated under them until after the large 1946 potato crop.

Beginning with the 1946 crop there has been an abundant supply of potatoes each year, except for 1951 and for most of the calendar year 1952. During this period, marketing agreements versus marketing quotas have been widely discussed as a means of coping with the extra supplies. Representatives of potato growers, in requesting extension of price supports in 1948, testified before congressional committees that marketing agreements were acceptable as a condition of continuing price support but marketing quotas were not. The Agricultural Act of 1948 authorized the Secretary of Agriculture to require compliance with production goals and marketing regulations. Production areas, in which a marketing agreement was considered feasible, were required to consider adoption of such a program for 1950 as a condition of eligibility for price support. Areas failing to approve a marketing agreement program were ineligible for price support. The same legislation stated that "For the crop year 1951 and thereafter no price support shall be made available for any Irish potatoes unless marketing quotas are in effect with respect to such potatoes."

Since 1940, actions with respect to potato marketing agreement programs have been taken, as follows:

Area	Order	
	Effective	Status 1/
Idaho-Malheur Co., Ore., (amended 1-19-50)	9-5-41	Active
Colorado	8-30-41	Active
Central Oregon-Northern California (amended 11-7-49)	1-26-42	Active
North Central States (Mich., Wis., Minn., N. Dak.) (amended to include commercial areas of Iowa and Indiana 10-29-50)	1-26-42	Terminated 1951
Eastern South Dakota	5-15-48	Inactive 1952 2/
Southeastern States (N.C.-Va.)	5-24-48	Inactive 1951 2/
Maine	9-27-48	Terminated 1951
Maine	8-30-54	3/
Washington	9-28-49	Active
New Jersey	4-6-50	Terminated 1952
New England, except Maine	11-12-50	Inactive 1952 2/
Long Island	Not approved by growers 1950	
Upstate New York	Not approved by growers 1950	
Pennsylvania	Not approved by growers 1950	
Maryland-Delaware	Not approved by growers 1950	
Central Nebraska	Not approved by growers 1950	
Wyoming-Western Nebraska	Not approved by growers 1950	
California - early crop	Not approved by growers 1949	
California, except Modoc and Siskiyou Counties	Not approved by growers 1950	

1/ Status as of publication date, 1954.

2/ These programs became inactive with the crop year indicated and have continued in an inactive status.

3/ Not yet organized.

Administration

Each fruit or vegetable marketing agreement is administered at the local level by a committee composed of growers and handlers. There is nothing automatic in the operation of the potato marketing order programs and no regulations are made effective until they are recommended by the committee and issued by the Secretary of Agriculture. The number of committee members, districts they represent, term of office, and duties are spelled out in the agreement and order; as is the method of nominating the initial and succeeding members.

The committee employs personnel necessary to carry on its work. The number of employees depends on the size of the production area, volume of shipments, and length of season. The number of employees ranges from 1 who takes care of all managerial duties to as many as 6 or 8 office and field workers. In addition to managerial and administrative duties, the committee's employees are largely responsible for the establishment and maintenance of good public relations between the industry and the committee, as they have more direct contact with growers and handlers than the average committee members themselves. Because of the importance of the employees' duties, the qualifications necessary for the positions make the committees' task of hiring competent help difficult in some areas.

Salaries and office expenses are paid by assessments levied against each first handler of a shipment of potatoes, who must pay his pro rata share of the expenses. Assessments are nominal in all areas that ship a substantial volume of potatoes. Assessments range from 50 cents to \$1 a carload (360 100-pound sacks) in the areas of large production and as high as 1 cent a hundredweight in areas of small production. If, at the end of a season, assessment collections exceed expenditures, the surplus money must be credited pro rata to the handlers' accounts for the next season or refunded.

Regulations under potato marketing agreement programs

All potato orders authorize regulation by grade, size, quality, and maturity. In actual practice, regulations have varied from keeping a portion of the culls off the market to a very strict grade and size regulation -- dependent on the wishes of the growers and handlers in the area, the supply, and market prices. In Colorado when prices were near parity in 1951-52, the Colorado "C" grade, which is below the requirements of U.S. No. 2 grade, was adopted as the minimum grade that could be shipped. In Maine, under extreme surplus conditions and price support in 1950, U.S. No. 1 grade, 2 $\frac{1}{4}$ -inch minimum and 3 $\frac{3}{4}$ -inch maximum size for round white varieties and U.S. No. 1, 1 $\frac{7}{8}$ -inch minimum size for red skin varieties were adopted as the minimum grades permitted to be shipped.

At the start of the 1953 crop season, the Idaho-Eastern Oregon Potato Committee limited the marketing of Russet Burbank potatoes to U.S. No. 2 or better grade, 2-inch minimum size, and red skin varieties to U.S. No. 2 or better, 1 $\frac{7}{8}$ -inch minimum size. The limitation on Russet Burbanks, however, was later raised on committee recommendation to a 2-inch or 4-ounce minimum size for U.S. No. 1 or better grade and an 8-ounce minimum size for U.S. No. 2 grade. After operating under this regulation for a few weeks the committee recommended that the minimum size on the U.S. No. 2 grade should be lowered to 6 ounces.

Beginning in 1950, the marketing order committees in the Western States-- Idaho, Washington, Oregon-northern California, Colorado--have held joint meetings of representatives from their committees to consider and work out coordinated marketing programs. These committees represent producers of a large part of the Russet Burbank and Red McClure potato crops. The exchange of information at the joint meetings and the conclusions reached at them have been of mutual benefit to each committee group. These committees have indicated their desire to maintain and continue the joint meetings on a regional basis. However, none of the committees is bound formally by the meetings, although the representatives accept a responsibility of speaking for their committees and, in turn, for carrying the information on views of other committees back to their own group.

The Oregon-California Potato Committee in 1953, following the joint regional meeting, recommended regulations, similar to those of Idaho, namely, U. S. No. 1 or better, 2-inch minimum and U.S. No. 2, 8-ounce minimum size. The State of Washington Potato Committee, although participating in the joint meeting, did not recommend the 8-ounce minimum for U.S. No. 2's. The Oregon-California Potato Committee adopted the 8-ounce minimum size but did not lower it to 6 ounces when the Idaho-Eastern Oregon Potato Committee recommended such action.

The three committees in Colorado, representing the respective production districts, recommended regulations for their round varieties which they considered about in line with regulations recommended by other Western States for Russet Burbank potatoes. Each committee recommended a maturity regulation applicable to early shipments.

Although most of the current Federal marketing agreement programs for potatoes authorize regulation of the marketing of seed potatoes, no grade and size regulations have been issued.

Compliance

Compliance with the terms of the agreement and industry support are closely related. Strong industry support is the best insurance that compliance problems will be at a minimum. The old adage "An ounce of prevention is worth a pound of cure" is particularly true for marketing agreement programs. A combination of industry support with alert, aggressive management will help to prevent possible violations to a far greater degree than legal enforcement procedures. Rumors of violations crop up rather constantly in all marketing order operations and, because they are prevalent and widespread, they frequently cause more administrative trouble than actual violations. It is a primary duty of the committee, through its members, and the manager and the fieldmen, to investigate rumors and to determine whether they are false or have some foundation in fact.

Committee members and committee employees can perform an even more valuable function by becoming well informed themselves and, in turn, informing their neighbors of the purpose and objective of the basic program and of the current regulations. In one small area where there was a minimum of support at the time the program was adopted and where operations could have been most difficult, the manager and committee members held a series of meetings in homes or on farms where several neighbors gathered. These informal small meetings were most effective in giving growers information and assistance and the program operated smoothly from the beginning. There were only two cases under this program necessitating court action during 1 1/2 years of operation.

When committee personnel check on reports and find reasonable assurance that a violation of regulations has occurred, the case is referred to the U. S. Department of Agriculture for formal investigation. The case is then handled by the Department of Agriculture and the Department of Justice.

Handling of violations is illustrated by the record of one of the western potato marketing order programs during the 1952-53 season. Twelve cases were referred by the committee to the Department. Each case was formally investigated and a report was presented for processing through the Department of Agriculture and the Department of Justice. Two cases were tried in Federal Courts; each defendant was found guilty, and fined -- \$150 in one case and \$250 in the other. Three additional cases were filed with the courts by the U. S. Attorney and they were awaiting trial when this was written. The Department of Justice declined to prosecute 5 cases because of extenuating circumstances, although the committee was authorized to admonish the handlers that in case of further violations these cases could be reopened. No action was taken in two cases because of insufficient evidence.

In all Federal potato marketing agreement programs, Federal-State inspection is required. No other satisfactory method of checking and assuring compliance with regulations has been found. The inspection certificate informs both the handler and the committee as to the facts relating to quality and size of potatoes in each shipment. It would be virtually impossible to determine whether there has been compliance with the program by spot checking arrivals of potatoes at destination. At most of the smaller markets, inspectors are not always available and it would be very easy to send the off-grade potatoes to markets where inspection service is not available.

If inspection were not required, the handler could say that all the lots complied with the regulations and the fieldman or investigator would have no proof that they did not. However, if the handler has inspection certificates showing that the potatoes did meet the required minimum grade, he has the evidence to support his claim. If the handler failed to obtain inspection he has no proof of compliance and he is in trouble. Also, it is quite difficult to prosecute a handler for shipping low-quality potatoes without positive proof that the potatoes failed to meet the required minimum grade and size. The official inspection certificate furnishes the necessary proof. Even in areas where most of the potatoes have been farm graded it has been possible to provide efficient inspection service when the grower-handlers cooperated by giving as much advance notice as possible to the inspection service regarding the time a car or truck would be loaded.

The records on rail shipments are complete and can be easily checked to prevent wilful violations. There are several ways of checking on truck shipments, such as the books and records of the handlers, receipts in terminal markets, reports from neighbors, and road blocks by the State highway patrol. State authorities are not required to assist in the operation of a Federal program, but they usually do if the growers and handlers want them to. The operation of a marketing agreement and compliance with its regulations hinges on local support.

The volume of truck traffic in New Jersey was so heavy during the operation of the agreement that, although some road blocks were used, it was not feasible to establish them extensively. Consequently, the committee employees spent considerable time checking truck arrivals in terminal markets. When the program first started receivers were reluctant to cooperate. In a few weeks, however, the attitude of most of them had changed to wholehearted support.

There has been excellent cooperation with all State authorities in the production areas and in adjoining States.

It is the policy of the Department to terminate the appointment of any committee member convicted of violating a regulation. A few have been removed for this reason.

Accomplishments and Limitations

Attempts to calculate with mathematical exactness any increases in potato prices due to grade and size limitations under marketing agreements meet with only limited success because it is difficult to compute what potato prices would have been without such regulations. The effect of grade and size regulations on potato prices comes primarily from three types of influences, namely (1) elimination of grades or sizes for which prices are normally discounted, (2) increase in price due to reduction in the supply, and (3) merchandising factors such as maturity and cleanliness. It is generally conceded by potato growers and handlers who have operated under marketing agreements that the elimination from marketing channels of grades and sizes that are discounted in price outweighs the effect of limitations of volume.

When Idaho started operating under a marketing agreement in 1948 a lengthy discussion centered around whether size limitations should be 1 7/8-inch minimum or 2-inch minimum. Differences of opinion within the committee were compromised and a recommendation for a 2-inch minimum was sent to the Department of Agriculture. When the committee met at the beginning of the next season there was far less difficulty in arriving at a unanimous decision to recommend a 2-inch minimum, because handlers had visited their receivers and had been advised that sales were better both in price and volume by holding to a 2-inch minimum than by allowing some of the smaller stock in the pack.

In 1949 the Idaho committee recommended, after lengthy investigation and discussion, a maturity regulation on Russet Burbanks from September 15 to November 1. Reaction from receiving markets was favorable and both growers and handlers also noted that the usual dip in the market immediately after receipt of early shipments did not occur. This was the first maturity regulation issued under a potato marketing agreement program.

This type of regulation proved so popular among terminal market receivers and in the production area, that a maturity regulation has been in effect each year since then. In 1950 the maturity regulation was in effect from July 1 to November 1 and covered all varieties of potatoes grown in the production area. The other western areas also have adopted maturity regulations at the beginning of each season.

For many years it had been the custom to dig potatoes early to receive a premium price. Most of the time these early harvested potatoes were so immature that most of the skin was rubbed off in the grading process. Badly skinned potatoes tend to become discolored and shriveled by the time they reach the consumer. Handlers report fewer claims at terminal markets for deterioration since the maturity regulations have gone into effect. Each season it is becoming more difficult to sell immature potatoes.

Before 1951 Connecticut River Valley potatoes were normally discounted 30 to 50 cents per hundredweight in Boston and other terminal markets. During the summer of 1951 when the potato industry in the area convinced the receiving trade that, due to marketing agreement regulation, potatoes from the Connecticut River Valley were being graded, inspected, and marketed in better condition than theretofore, the discount was discontinued. In other words, potato growers in the Connecticut Valley had previously been giving away their low grades, and by adding low-quality stock to the supply, had depressed the price for the bulk of their crop which could meet acceptable market grades.

In New Jersey during the 1951 season all shipments were inspected and nearly all graded U.S. No. 1. Handlers reported the widest distribution in years.

In February 1952, Idaho terminated all regulations for the remainder of the 1951-52 season. The committee later estimated that about 2,500 cars of low-grade potatoes moved to market because quality restrictions had been dropped. Growers and shippers later indicated that shipments of these low-grade potatoes during the latter part of the 1951 crop year damaged the reputation for Idaho potatoes to such an extent, that the income from the crop was reduced. As an indication of the industry's conviction on this point, culls and small sizes were withheld by Idaho growers and shippers throughout the 1952 crop year even though prices were favorable.

The merchandising features afforded by a marketing agreement approach can help forward-looking elements of the potato industry to promote better quality, thereby improving acceptance of the product and increasing repeat sales. This aspect of marketing agreements still leaves much to be explored. The prospect for improving merchandising techniques through marketing agreement assistance appears most favorable for the sale of consumer packages. The protection of a packer's reputation on consumer-sized packages can be enhanced by protecting quality that may be put in such packages. In addition, special packs for hotels, restaurants, or other consumers may be protected by appropriate limitations on the quality and size of product allowed in such packs.

In some areas there appears to be a decided trend towards limiting the size of potatoes that go into any particular pack. If experience proves this trend to be sound, marketing agreement committees may find it profitable from an industry standpoint to assist in promoting such practices. During the 1953 season the three northwest areas limited shipments of Russet Burbanks to U.S. No. 1 or better, 2 inch or 4-ounce minimum and, if No. 2's were shipped they had to meet a 6-ounce minimum in Idaho and an 8-ounce minimum in the Klamath Basin (Oregon-northern California). Some areas have considered it desirable to limit U.S. No. 1 round varieties to a 2-inch minimum and to a particular maximum size, and to allow a smaller size minimum and to place no maximum limit on U.S. No. 2 stock. Committees may find it desirable to maintain fairly rigid standards for the better quality packs, while varying the minimum standards of the lower grades to fit the supply conditions for a particular season.

Grade and size regulations under marketing agreements are limited to the extent that growers and handlers are willing to go in grading out particular qualities and sizes of potatoes. This type of limitation depends upon a variety of factors, such as the average quality and size of a given crop, customary marketing practices, and the mechanical problems of separating certain grades and sizes.

Grading to obtain packs of specified qualities and sizes increases the cost of packing but may pay off because these special packs meet the needs of particular types of users. Experiments conducted by institutional users, for example, show that they could afford to pay a premium for potatoes segregated into more uniform sizes. This separation of sizes can be accomplished most efficiently at the time the potatoes are graded for market.

There are decided limitations to the extent that grade and size regulations under marketing agreements can be used effectively to eliminate a sizable volume of potatoes. The resistance to heavy culling by either growers or handlers, or both, reduces the feasibility of this type of approach to surplus control. In harvesting either early or late potatoes, all grades and sizes are hauled to the packing shed or to the storage bin because it is not feasible to segregate the potatoes in the field. Late potatoes are stored without sorting which means that small and large, defective and sound potatoes are mixed. The first segregation is made at the time of grading for market and the potatoes that do not meet the grade requirement cannot be diverted to a nonfood use until this stage of the marketing process is reached. Therefore, some low-grade tubers are potentially available for market to the very end of the season.

Up to the present time there has been a tendency on the part of a few growers and handlers to hold some of these low grades in storage when there is a strict grade and size regulation in effect in the hope that such potatoes can be marketed later if the regulation is relaxed. Until growers and shippers convince terminal market operators that they are going to remove from storage throughout the season the potatoes that do not meet grade requirements, this low-grade stock will have a price-depressing effect.

If potato growers in additional areas should approve issuance of marketing orders, it is possible that a substantial part of the commercial crop could be marketed under this type of program. According to the 1950 census, only 31,000 farms produce 10 or more acres of potatoes and this group accounted for 82 percent of the total crop. In addition, these farms are located in a relatively few small concentrated areas. A few more potato marketing agreements in important commercial producing areas could result in a sizable portion, probably 80 to 90 percent of the commercial crop, being covered by this type of program. During the last year (1950 crop) of the price-support program for potatoes, about 70 percent of late production was covered by marketing agreement programs. In 1953, about 30 percent of the late crop was marketed under active marketing agreements. With the issuance of the Maine program in late August 1954, 45.7 percent of the total U.S. crop, and 55.7 percent of the late crop, on the basis of the 1953 crop figures, were covered by Federal marketing agreement and order programs.

Potato prices are highly sensitive to changes in supply. As a rule of thumb, a 1-percent change in production from average will cause approximately a 3.5- to 4-percent change in price in the opposite direction, when other factors affecting prices remain constant. This means that a 10-percent change in production is likely to cause a 35- to 40-percent change in prices. Marketing agreement programs can be of material benefit in reducing the severity of price changes; however, growers must keep production fairly well in line with market outlets.

Summary

Marketing agreements are industry programs. The industry, through its committees, makes the recommendations and the Department of Agriculture issues the regulations.

Marketing agreement programs for potatoes can be operated in any commercial area in which growers and shippers give them their wholehearted support.

Grade and size programs are simple and inexpensive to operate, but all shipments must be inspected and a nominal assessment for administrative expenses must be paid.

Compliance with the regulations is not a difficult problem, if growers and handlers in the production area want the program to be successful. The committee and the administrative personnel can assist growers and handlers in complying with regulations and thereby in avoiding violations.

The merchandising aids, such as packs of standardized grades and sizes, backed with an official inspection certificate, and packs meeting maturity and cleanliness specifications, have material benefit to growers. Any area that wishes to improve its competitive position may do so by assuring buyers through marketing agreements of acceptable grades and sizes.

